

China's Global Quest for Energy

Rocky U.S. Relationship with Venezuela is Playing into China's Energy Policy Despite The Ocean Between Them

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Hugo Chavez meets with Hu Jintao

The U.S. rocky relationship with Venezuela is playing into China's hands, perhaps better than Beijing expected.

Venezuela exports approximately 60 percent of its oil to the U.S. However, since Hugo Chavez came into power in Venezuela in 1999, the U.S. and Venezuela have maintained a tense relationship, paving a path of continuous energy deals with China. Both China and Venezuela have been striking "International cooperation deals" that would not only provide increased oil exports to China, but also bolster Venezuela's economy and oil infrastructure. In 2004, Chavez, who has visited China at least

five times since 1999, signed such eight agreements on energy cooperation with the Asian country. According to *China Daily*, Venezuela currently ships nearly 300,000 barrels per day (bpd) of oil and fuel to China. 80,000 of this is crude oil, which is up from 39,000 bpd the year before.

In addition to various business arrangements between Venezuela's state-run oil company and China Petroleum that include purchasing Venezuelan fuel oil and power plant fuel, Chinese companies are seeking to invest in oil exploration and production in the country. In return Chavez expects and is receiving Chinese assistance in the areas of telecommunications, food production and culture.

The list of joint project is long, including not only oil sales from existing supply, but also the exploration and development of new fields and the development of older fields. In fact, Chavez visited China in December 2004, where he declared that Venezuela was ready to help China establish its own strategic petroleum reserve. He also spoke "of a budding strategic alliance between the two countries, and signed an agreement that would allow Chinese companies to gain developmental rights to 15 oil fields in eastern Venezuela. Although this would appear to be an excellent opportunity for China, there are still a number of hurdles to overcome before the full export potential can be realized.

One issue facing China is transportation. China and Venezuela have a big ocean between them. While Chavez is opening the doors and allowing China access to Venezuela's oil, transporting the oil is still costly. A tanker capable of hauling 500,000 barrels would be profitable on a short haul. However, that same size tanker will undoubtedly lose money hauling oil all the way to Asia. Currently, supertankers are not permitted to pass through the Panama Canal, which would save time and money by drastically cutting back the travel distance to transport the oil. In September 2007, the Panamanian government began a massive effort to widen the 93-year old canal. But the project is estimated to cost \$5 billion and will take up to eight years to

complete. The new canal will be able to accommodate maximum capacity ships. China will likely benefit most as it ranks second to the U.S. as the canal's biggest user. But that will be years from now.

Another alternative to delivering the oil to China is to build a pipeline from Venezuelan oil fields across Colombia to Pacific ports in Colombia or Ecuador. Unfortunately such a pipeline would currently be vulnerable to sabotage because it would run across a war zone where rebels have long made a habit of attacking the country's existing pipelines. Additionally, the necessary Pacific port facilities currently do not exist and would have to be constructed.

A third alternative would be an existing, refurbished inter-oceanic pipeline located in Panama. Large-scale oil shipments from Venezuela to China would dramatically increase the pipeline's use. Additionally, the Venezuelan and Panamanian governments have been negotiating the use of the pipeline to pump the oil for quicker access to China. The pipeline reportedly has a capacity of 800,000 bpd. However, the pumps were installed to move oil from the Pacific to the Atlantic and would require modification or reversal to send the fuel the other direction.

Chavez has also signed a contract to have China construct a number of supertankers, which will eliminate its dependency on renting these tankers. It will also, according to Chavez, allow him to create one of the greatest fleets in the world. Additionally, Venezuela plans to manufacture parts for the tankers, which will enable it to conduct much of its own maintenance.

China's interest in Venezuela's oil poses a potential threat to U.S. interests. Venezuela is the U.S.'s fourth largest oil supplier after Canada, Mexico and Saudi Arabia. Tensions between the U.S. and Venezuela have been flaring since an April 2002 coup briefly removed Chavez from office. Chavez put the blame on the U.S., accusing Washington of sponsoring the attempted overthrow as well as a devastating oil lockout in 2002-2003. With a severe distrust of the Bush administration, and a marked "anti-imperialist viewpoint," Chavez has voiced concerns that President Bush had plans to have him assassinated, adding that if he were killed the U.S. could "forget Venezuelan oil."

As the Venezuelan economy stands today, there is very little likelihood that Venezuela would stop exporting oil to the U.S. Venezuela depends too heavily on its oil industry. In one study it was estimated that over 60 percent of Venezuela's population live in poverty, earning less than \$2 per day. Using the revenues from Venezuela's oil industry, Chavez has been able to offer a number of programs promoting literacy, job training, land reform, subsidized food and small loans. He has also used the revenue for health care and to import Cuban doctors.

Once Venezuela secures an alternate export partner in China to replace the U.S., it could hurt the U.S., which depends on Venezuela to provide oil for 12 to 15 percent of its consumption rate. Despite statements made by Venezuelan officials, such as Ali Rodriguez, president of Venezuela's state-owned oil company, PDVSA, who called the assumption of replacing its U.S. business with China "absurd," Chavez has made a number of threats, including that of putting an embargo on oil shipments to the U.S. The U.S. currently has the infrastructure in place, such as refineries capable of processing Venezuela's crude. Refineries in China are not currently capable of processing Venezuela's heavy crude oil. In May of this year, however, China and Venezuela agreed to build a refinery in China's Guangdong province. The refinery will be capable of processing up to 400,000 bpd and will make Chavez's goal of shipping one million bpd of oil to China by 2011 a reality. As China and Venezuela continue to work together, it will become easier for Chavez to use oil as a geopolitical weapon.

China's influence in certain countries could eventually backfire against the U.S. as certain major U.S. oil supplying nations find an oil export substitute in China. The Venezuelan government and its political disagreements and strong words with the Bush administration provides a perfect

example of a country that could potentially cut off the U.S. in favor of doing business with China. Should China be able to carry the Venezuelan oil business with adequate purchases, oil could be used as a weapon of diplomacy against the U.S. Finally China, knowing that it could face a bleak future if its appetite is not curbed, is also searching for technology that will stretch its resources.

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